Statement of
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Before the
House Agriculture Subcommittee on
General Farm Commodities and Risk Management

Concerning
Oversight of the Farm Security and Rural Investment Act

May 20, 2004

Chairman Moran, Ranking Member Peterson, members of the subcommittee, on behalf of the farmer and rancher members of the National Farmers Union, I am pleased to participate in this oversight hearing to provide our views on the Farm Security and Rural Investment Act (FSRIA). Although I am going to limit my comments to portions of four of the ten farm bill titles, I recognize that each provision of the farm bill requires effective oversight.

In short, I think I would use the title of the Clint Eastwood film, "The Good, The Bad and The Ugly" to describe our opinion of the 2002 farm bill. This view is not so much based on what was included or excluded in the legislation two years ago, but is more directly related to the implementation, modifications and questions about the future of our farm policy vis-à-vis other considerations.

The FSRIA, signed into law two year ago, represented the culmination of months of challenging, and in some cases contentious, work on the part of Congress and many others with an interest in farm policy. While it is not the farm bill the NFU proposed, we supported its adoption as representing a reasonable and balanced compromise among the many issues and interests that needed to be addressed.

In particular this farm bill provided the only viable opportunity at the time to re-establish a portion of the funding baseline that agriculture had lost over the previous two decades while at the same time resulting in a lower level of projected expenditures over 10 years than occurred under the 1996 farm bill when the multi-year ad hoc payments to producers that were required to sustain producer incomes are included. It also partially corrected some of the failings of Freedom-To-Farm, by shifting a greater proportion of the economic safety net to counter-cyclical programs and addressing a number of other important priorities for production agriculture, rural communities and our nation in general.

COMMODITY PROGRAMS –

The 2002 farm bill made substantial changes in the operation of the commodity programs by enhancing and expanding the availability of counter-cyclical types of support, through marketing loans and target prices, while maintaining a direct, de-coupled payment program. For many commodities the loan rates were increased for the first time in decades and new crops became eligible for marketing loans. After a fair amount of controversy over the USDA's interpretation of the law and its process for establishing loan rates for various commodities and regions, the program now seems to be running fairly smoothly.

The peanut program was greatly modified to "buy out" marketing quotas and establish a safety net that is similar to that available for other major field crops. I believe there is still concern among many peanut producers about the cost, equity and future economic stability this program will afford compared to the traditional peanut program. Since the 2002 farm bill was passed, producer peanut prices have declined compared to the 2001 marketing year by 20 percent while payments under the peanut program have risen substantially. A high percentage of those payments, however are made to historic quota holders who may or may not be producers. In addition, while producer prices have declined, the retail price of peanut containing products has not.

The sugar program, which NFU supports, has been widely backed throughout the production and processing sectors of that industry and was retained. It has generally operated on a no net cost basis. Unfortunately, the rush to adopt free trade agreements with a number of surplus sugar exporting nations poses a real threat to the viability of our domestic sugar industry and this program.

Dairy producers were provided a new, targeted counter-cyclical payment program to help offset the devastating impact of prolonged periods of low milk prices in addition to an extension of the traditional price support mechanism. The authorization for the Milk Income Loss Compensation program is due to expire in the fall of 2005. While dairy prices appear to have turned around, at least in the short run, we believe it imperative that the committee begin to consider how best to address the market instability within the dairy production industry that results from a combination of domestic market considerations as well as the impact of dairy product imports that are increasingly displacing domestic production in our own market. Furthermore, the committee should continue to monitor USDA actions related to the operation of the $9.90 per hundredweight price support program to ensure its purchase prices for manufactured products satisfy its obligation to maintain the farm gate price of milk as directed in the farm bill. In undertaking these responsibilities, the committee should direct USDA to complete the examination of the effects of national dairy policy on farm price stability, profitability and rural economies, its impact on federal nutrition programs and the relationship between the policies and fluid milk cost and utilization.

In general, we believe the commodity title of the farm bill is functioning reasonably well. It is in fact responsible for billions of dollars in reduced outlays for agricultural programs compared to projections at the time the legislation was passed as a result of the policy shift from direct payments to enhanced counter-cyclical programs coupled with improved commodity prices.

CONSERVATION –

The 2002 farm bill authorized a substantial increase in funding for the expansion of conservation programs, including the approval of a new conservation incentive program for working lands. We supported these efforts, but are now concerned that USDA is "dragging its feet" through the implementation process as evidenced by the controversy over funding for technical assistance, development of regulations to implement the Conservation Security Program (CSP) and the continued backlog of program applications that are not being processed and approved in a timely manner.

In particular, the CSP regulations being proposed by USDA appear to be contrary to the intent of Congress by establishing a very limited and restrictive watershed approach to a program that was intended to provide incentives for the application of a broad range of conservation practices.

RURAL DEVELOPMENT –

The farm bill included a wide spectrum of programs and funding authorizations to encourage and enhance rural development and address the backlog of demand for various programs. These encompassed strategic planning, communications technology, water and waste water projects, training for rural emergency personnel and support for value added market development initiatives.

The NFU was supportive of the provisions contained in the legislation. However, we are concerned that many programs are suffering from a lack of coordination within USDA, among other agencies and the private sector with regard to the management of various resources to reduce duplication, maximize opportunities, encourage well constructed proposals and support the creation of synergies within projects that are targeted to similar development issues.

Furthermore inadequate funding levels and the management of the application process for many of the development loans and grants are reducing the ability of the programs to achieve their objectives.

For many of the grant programs, the timeframe from the date a Notice of Funding Availability (NOFA) is published until the proposals must be submitted has been sixty days or less. For many project developers and/or communities the matching funds required to obtain the range of grants available within the rural development programs as well as project and business plan development funds are difficult to secure and increasingly involve arrangements among multiple parties. Because of these circumstances, many worthwhile proposals fail to meet the NOFA requirements and therefore go unfunded. This system tends to disproportionately advantage those who develop internal grant submission expertise compared to those who may actually develop the most sound and innovative projects.

The proposal development and funding issues are particularly acute for the Value-Added Producer Grant Program where the legislation authorized $40 million per year but only $28.7 million was awarded in 2003 and only $15 million is available this fiscal year. This is resulting in a substantial back-log of proposals, not withstanding the issue of timeliness in the grant proposal process and is restricting the country's ability to address the rural development challenges as envisioned by the supporters of the legislation.

MISCELLANEOUS –

Country Of Origin Labeling –

After intense negotiation and compromise, the 2002 farm bill authorized the USDA to promulgate regulations to implement a two-year period for voluntary country of origin labeling (COOL) for beef, pork, lamb, fruits, vegetables, seafood and peanuts. The legislation required that by September 30, 2004, the voluntary program would be replaced by mandatory labeling for the enumerated commodities. After poorly disguised actions on the part of the administration and USDA to discredit the provisions of the law, Congress reneged on its commitment to agricultural producers and consumers alike by prohibiting the use of appropriated funds to implement the law for two years. It is clear to everyone that this represents an effort by those who oppose COOL to make the law more vulnerable to full repeal rather than provide an opportunity to improve the provisions contained in the farm bill.

As we engage in more free trade negotiations that will further open our borders to imports, confront a broad range of food safety and biosecurity issues and consider the implementation of a national animal identification system, it is even more critical that producers have this simple tool available to differentiate their products from those which are imported and that consumers be provided additional information regarding the origin of food products.

We urge Congress to reverse its decision and restore both the funding and commitment to the implementation of an effective and efficient mandatory country of origin labeling program.

Disaster Assistance –

While the farm bill has substantially reduced the potential need for economic assistance related to depressed market prices by strengthening the economic safety net for producers, it failed to address the needs of producers who suffer production losses as a result of drought, flood, disease and other weather related causes or provide a long term solution to these production loss problems for which the existing crop insurance program is inadequate.

Since the comprehensive, ad hoc disaster assistance provided for production losses sustained in the 2000 crop year, the administration has opposed emergency help for producers unless its costs were offset by reductions in other agricultural program functions. In January of 2003, Congress was able to advance a very modest disaster assistance program as part of the appropriations process only by taking money from other programs. For many producers who suffered weather related losses, this amounted to Washington taking money from one pocket, the CSP and other important programs, and putting it another as limited disaster assistance, while claiming economic help had been provided.

While we recognize the budget situation has made it difficult to support additional spending for all domestic programs, we also believe we need to exhibit a similar level of compassion and understanding for those who have suffered weather related farm losses just like we do for individuals and families who must cope with other types of disasters. In addition, we should recognize that a portion of the reduction in the cost of the farm program has been the result of higher commodity prices due to the production losses suffered by U.S. farmers and ranchers.

Congressman Rehberg and others on the committee have suggested some specific actions that would provide partial relief to these producers, and we fully support those efforts. In addition to these ideas, we encourage Congress to take action this year to provide additional emergency assistance to those crop and livestock producers who have sustained weather related losses for which compensation was not provided, in each of the 2001 through 2004 production years. Without such help, not only will many more farmers and ranchers be placed in an untenable economic position, but the impact on main street businesses and the quality of life in many rural communities will further deteriorate.

Furthermore, we hope Congress will give attention to devising a more predictable and sustainable approach to addressing future production disasters, including those that are multi-year in nature.

CONCLUSION -

We are concerned that the current improvement in producer commodity prices may be taken for granted as it was in 1996. First, we must recognize that even with the improvements to the safety net and other programs provided in 2002, the effective safety net continues to represent but a fraction of a producer's total economic cost of production, and those costs are continuing to rise, while commodity prices will remain subject to great volatility.

Second, the growing federal budget deficit and efforts by some to further reduce taxes, including a substantial loss of revenue if the estate tax is repealed, are likely to further pressure domestic spending. The history of budget reconciliation suggests that agriculture will be asked to contribute a disproportionate share of any cuts in domestic programs which will further divide those with a genuine and legitimate interest in enhancing the economic opportunities in rural America.

Third, the ongoing multilateral and free trade negotiations, particularly in light of the expected dispute panel decision on the U.S. cotton program, suggest we must be even more vigilant in maintaining our ability to design, fund and defend adequate and effective agricultural policies.

We encourage the House and Senate Agriculture Committees to continue to monitor the implementation of the farm bill to help ensure the commitments which allowed this important legislation to become law are fulfilled in a timely and efficient manner.

Mr. Chairman, thank you for providing this forum to discuss the status of the Farm Security and Rural Investment Act of 2002. I will be pleased to respond to any questions you or your colleagues may have.